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I. PRC/USSR: TOWARD A SUMMIT (5/4)

The May 3-7 visit to Beijing by Soviet Defense Minister Yazov and the May 15-19 visit to Moscow by Jiang Zemin, the Chinese Communist party general secretary and chairman of the Central Military Commission, will allow both sides to demonstrate improving relations in the midst of international and domestic uncertainties. China's leaders see in growing rapprochement a way to balance the perceived enhancement of US global power and to regain bilateral leverage with the United States; Gorbachev seeks to highlight Moscow's continuing global strategic importance.

Yazov's long-delayed visit to Beijing and the provinces

will be another chance to highlight improving military ties and the prospective Soviet fighter sale to China. Jiang's visit is being billed as the return for Gorbachev's May 1989 visit to Beijing, though Jiang, unlike Gorbachev, is not also head of state. Jiang's will be the first visit by a Chinese party leader since Mao Zedong's last Moscow visit in 1956. In the crash of world communism, however, there is little substance to party ties.

Strategic context. Concern in Moscow and Beijing about US intentions and capabilities in the wake of the Gulf war and the collapse of East European communism provides a different strategic context for this second post-split summit. In 1989 both parties saw the Gorbachev summit as a chance to bury the hatchet and promote new, outward-looking foreign and development policies; now, both are preoccupied with domestic instability and with shoring up their international positions.

Moscow, though keenly aware that good Sino-Soviet ties help Soviet diplomacy in the region and globally, is lately more interested in the Asian free-market economies. China, however,

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in a funk over poor US-China relations, may want to portray a closer alignment with Moscow, especially in the Perm Five context, to gain more US attention and counter US global dominance. Still, for both Moscow and Beijing, the greater imperative to avoid damaging relations with Washington, and mutual wariness, will limit a closely coordinated approach.

Tokens of improved ties. The centerpiece of Jiang visit's is likely to be some accord on the border and a restatement of a mutual desire to reduce forces incrementally along the border. Both parties have claimed recent progress in adjudicating the long-standing border dispute, but disagreements over the Pamirs in the west and an island in the Ussuri opposite Khabarovsk and sensitive Soviet installations are likely to be put off to the future.

On the trade front, the recent Chinese commodity loan to the Soviets represents a Chinese show of support for the Gorbachev-led leadership--it also demonstrates the success of Chinese economic reform and helps prop up bilateral trade at established levels during the switch from barter to hard currency.

Outlook. Beijing and Moscow have each made an effort to avoid ideological recriminations, and both want a stable relationship that can withstand the inevitable shocks and practical problems that lie ahead. Chinese-Soviet relations have gradually improved and will probably improve further as mutual threat perceptions decline. But differing interests, domestic situations, and approaches to reform and social instability, along with the bitter burden of history, will prevent a return to the close ties that flourished for a brief time in the 1950s. (CLHamrin) (SECRET/NOFORN)

II. TAIWAN/PRC: AN END TO HOSTILITY, A START ON REFORM (5/3)

President Lee Teng-hui on April 30 announced both the end of formal hostility toward the PRC and the promulgation of constitutional reform. Lee's top-down constitutional reform, his olive branch to the PRC, and his frequent reiteration of reunification rhetoric are closely linked. While reassuring both Beijing and KMT conservatives of his commitment to eventual reunification, Lee is leading Taiwan toward a more contentious stage of reform, including greater Taiwanization of the island's politics.

Despite the seeming chaos of street demonstrations and parliamentary brawls, Lee had a relatively easy task in convincing the KMT "old thieves" to give up political power in the just-concluded national assembly. It approved a drastic

reapportionment for itself and for the more important legislative yuan, scheduling new assembly elections in December and new legislative-yuan elections in 1992. Lee showed himself adept at making compromises with KMT conservatives and with the fractious Democratic Progressive party (DPP). DPP stridency reflected frustration over its parliamentary weakness and virtually unilateral KMT amendment of the constitution. But DPP protests strengthened Lee's hand with KMT conservatives, preventing KMT back-sliding.

Lee's message to Beijing. Lee announced the PRC would on May 1 be considered a "political entity" rather than a "rebellious group." In return, Lee asked Beijing to give up threatening the use of force and stop trying to isolate Taiwan internationally, arguing this fuels Taiwan independence sentiment, which Beijing is trying to prevent. Lee also said he and his successors will simply wait--"10 or 20 years"--until Beijing delivers a positive response. Still, Taiwan is quite willing to improve low-level ties with the mainland, as demonstrated once again by Taiwan's recent dispatch of an "unofficial" Strait Exchange Foundation delegation to Beijing to work on trade and legal issues.

Lee's announced end to the period of "communist rebellion" provided political cover for the coming Taiwanization of the island's representative organs. And his reiteration of reunification rhetoric helped reassure Beijing and still powerful KMT conservatives that he is against Taiwan independence. Despite differences on principle and in interests, Taiwan and PRC leaders have found it expedient to improve ties incrementally, and this trend will continue. But while Beijing hopes to engage Taiwan in a process leading to reunification, early acceptance by either side of the other's conditions for high-level political talks is unlikely.

More reforms to come. Attention now shifts to December elections for a newly Taiwanized assembly, which, in turn, will consider a second series of constitutional amendments in 1992. Though Lee and the KMT have been able to work fairly smoothly so far based on broad party consensus and the judicious use of executive fiat, democratization and declining party discipline will make the next stage of reform more contentious. But, based on his successful management of difficult mainland policy issues and reapportionment, Lee should be in a good position to weather coming storms.

In an apparent partial apology for ramming through the first series of reforms, Lee has emphasized that the new assembly will represent the will of Taiwan's people. Direct election of the president is sure to be on the new assembly's agenda in 1992. If domestic political reform proceeds smoothly, Lee may be more than willing to trade his guaranteed tenure until 1996 for popular re-election as early as 1993.
(MFinegan) (CONFIDENTIAL)

III. CHINA: GRAPPLING WITH HUMAN RIGHTS (5/3)

Chinese leaders have concluded only recently that the human rights issue will not go away. But international and domestic pressures conflict, and Party chief Jiang Zemin is taking the lead in forming a strategy, which is likely to comprise an expanded, but tentative, human rights dialogue with the United States and other western countries; criticism of the West's human rights record; and--absent an unexpected policy lurch--a slow, grudging approach toward international norms.

For years Beijing shrugged off international criticism of its human rights record, confident the West would overlook its failings, owing to China's strategic importance and economic attractions. Deng Xiaoping reportedly summed up the leadership's attitude in saying the West has a short memory and cares only about China's stability and investment climate. Since the debate began over renewing China's MFN status, leaders have come to recognize a poor human rights reputation can entail real costs. [REDACTED]

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Conflicting pressures . . . Beijing takes seriously the possibility of losing MFN or having stringent human rights-related conditions attached to renewal. Officials have been ordered to pull out all the stops in lobbying US government officials, business people, "friends" of China, and other interested foreigners to assure renewal.

But party elders--and to a lesser extent, their successors--still view human rights through Marxist, and traditional, lenses, as a western construct and a tool of "hegemonists" bent on dictating to China. With a political succession impending--and with their collective leadership widely discredited--leaders fear liberalization would lead to renewed instability, threatening the regime and their personal power and interests. The ideologically orthodox propaganda and security apparatuses constrain any leader willing to loosen repression.

At the same time, effective governance demands willing assistance from--not merely grudging acceptance by--the party's rank-and-file, many of whom supported the Tiananmen protests. Chinese political culture, moreover, demands benevolent paternalism; repressive regimes have been excoriated by history. Leaders recognize, and hope to reverse, the damage they have done to relations with workers and intellectuals, whose cooperation is essential to modernization.

. . . result in conflicting signals. Chinese leaders have recently trumpeted their "leniency" in releasing some Tiananmen protesters--who had been detained for up to two years without

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trial. Last week an ailing labor leader was released from two years' detention. But leaders continue to fire, demote, or transfer journalists, party bureaucrats, and others who have committed no offense other than peaceful protest.

At the same time Beijing has entered a limited and tentative international human rights dialogue, agreeing, for example, to host human rights delegations from France and Australia. To prepare for this dialogue Beijing [redacted]

[redacted] has commissioned a series of think-tank studies on the role of human rights in Marxist thought, traditional Chinese society, and the West. The Chinese will use this information not only to criticize the West's failure to live up to its own standards, but to argue that western norms are not universally applicable. (CClarke) (b1)

IV. PRC/US/MFN: ANOTHER YELLOW FLAG FOR INVESTORS IN CHINA
(5/4)

Since Tiananmen, annual renewal of China's MFN status is no longer axiomatic. Even if MFN status is retained this year, the possibility of diminished access to US markets is a new and significant risk that will lower foreign investors' evaluations of the advantages of locating in China.

Dependencies. China's minister of foreign economic relations and trade this spring estimated that if MFN were not renewed, foreign-exchange earnings would be cut [redacted] (b1)

The Hong Kong government calculates that withdrawal of China's MFN status would cost Hong Kong [redacted] (b1)

[redacted] In 1990 Hong Kong re-exported Chinese goods worth \$10.5 billion to the United States, accounting for roughly one-fifth of its total re-exports.

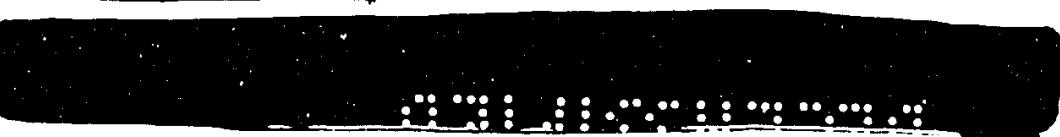
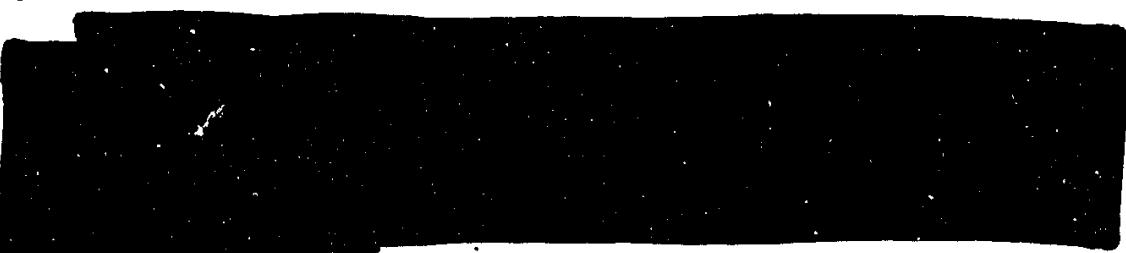
[redacted]
The rising importance of re-exports is attributable mainly to relocation of processing activities from Hong Kong to China's Pearl River delta. (b1)

Drawing cards. Motivations of foreign investors differ. Many US and EC investors have been attracted by the China market's prospects--the "bird in the bush." But the appeal of China for major western firms began to fade in 1988, when economic retrenchment to stem inflation was accompanied by policies that placed the foreign companies at a disadvantage, and some potentially profitable areas were closed off. After Tiananmen, western sanctions caused a number of firms to delay or abandon plans for investing in China.

Asian interest strong--but volatile. Even as interest in China by major western companies began to flag, investors from Hong Kong and other industrializing Asian countries began to pour more of their funds into China's coastal regions. They are more concerned about the "bird in the hand" and are drawn mainly by the chance to lower costs and stay competitive in principal markets, primarily the United States. In 1989-90, investment from these Asians rose more than enough to offset the fall in investment from the developed West.

The average value of the Asian investment deals, however, is smaller, and many are in activities that could easily be relocated to other low-wage nations if these offered prospects of maintaining a better trading climate with the United States. (WNewcomb, INR/EC) (SECRET/NOFORN/NOCONTRACT/ORCON)

V. CHINA/NEPAL: PLAYING ALL SIDES TO MAINTAIN INFLUENCE



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VI. CONTINUING REPERCUSSIONS OF TIANANMEN IN SECURITY APPARATUS

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